Tuesday November 4, 2003

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 11/04): 49,575 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$31-38.5 per MWh, Ave. = $36
• Approximate change from previous week	$+0.5 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$28.90 per barrel (year ago: $27.10)
• Seattle gasoline price (11/03)	$1.60 per gallon (year ago $1.38),
• Natural gas, Sumas Hub:	$3.98 per million British Thermal Units (year ago $3.34)
• Approximate change from last week.	Oil: -0.63 per barrel; Nat. gas: -0.05MMBtu

3. California Electricity Situation

- CA ISO Alert Status
  - A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
  - A stage 2 alert (5% reserve margin) was declared on July 10, 2002.
  - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from the Nation
  - BPA proposal would reduce electricity rates by 10% (Spokesman Review, Nov. 1)
  - Florida Power & Light vows to cut emissions. (Palm Beach Post, Oct. 31)
  - Small firms turn to financial futures for fuel. (WSJ, Nov 3)
  - State's new power plan approved (Sac. Bee, Oct. 29)

4. River and Snowpack Information (Updated Nov. 04, 2003)

- Observed September stream flow at The Dalles: 63.4% of average
- Observed October precipitation above The Dalles: 121% of average

5. Energy Conservation Achievement (Updated Aug. 19, 2003)

- **State Agencies:** From April to June 2003 electrical usage was 15.3 % less and natural gas usage was 10.9% less compared to the same period in 2000.

6. Power Exchanged: (Nov. 04, 2003)

- Average flow of power during the last 30 days
  - California (exported to) 1,818 MW
  - Canada (exported to) 595 MW
  - Net power export: 2,413 MW

BPA proposal would reduce wholesale electricity rates 10%

Spokesman review, Nov. 1

A proposed legal settlement backed by the Bonneville Power Administration would roll back wholesale electricity rates by almost 10 percent.

But Bonneville Power Administrator Steve Wright said all parties, including affected public utilities in the region, must sign the agreement within 90 days, finally approve it within 120 days and drop any legal action on special credits.

"The terms now on the table strike a balance of interest of all parties," Deputy U.S. Energy Secretary Kyle McSlarrow said. "I urge the utilities to sign the agreement."

Three utilities - Avista Corp., Puget Sound Energy and Vera Water and Power in Spokane Valley - have already signed off on the plan.

Kevin Wells, Vera's general manager, said if the agreement goes through, it could add up to a $4- to $5- break per month on his average customer's bill. Vera serves about 8,500 customers in Spokane Valley.

"It's in our customers' interest to get rate relief that's certain and immediate," Wells said.

Local utilities that buy power from Bonneville Power include Inland Power and Light, Vera, Modern Electric Water Co. and the city of Cheney. However, several of them, including Inland and Modern, signed contracts locking in a rate and exempting them from rate increases until 2007.

The federal power marketing agency provides about half the Northwest's electricity from hydroelectric dams in the Columbia Basin and one nuclear power plant in Washington.

The deal is intended to settle a legal challenge to changes in so- called residential and small-farm credits.

Those are payments Bonneville Power makes to for-profit utilities, such as Avista, to share the benefits of the low-cost Northwest hydropower system.

The credits have been in place since 1980 and until recently had been made as cash payments. But the agency's change to a mix of power and cash drew challenges from 72 public utilities, who questioned whether the for-profit utilities were entitled to the power.

Under the terms of the agreement, private utilities, including Avista, would agree to defer $269 million in payments from Bonneville Power until 2007, when the agency's next rate period begins.

Those payments would then be subject to an annual floor of $100 million and a limit of $300 million. That compares with about $400 million a year in current contracts.

Florida Power and Light Vows To Cut Gas Emissions

Palm Beach Post, Oct. 31

FPL Group Inc. said Tuesday it will reduce its greenhouse gas emissions 18 percent by 2008.

The company plans to improve the operating efficiency at its Seabrook, N.H., nuclear plant and fossil fuel plants and build or buy power from clean natural gas generators to offset older, less efficient operations.

The Juno Beach-based company (NYSE: FPL, $63.93) said it would also expand its wind energy operations run by its non-regulated energy subsidiary, FPL Energy LLC.

The reduction figures are based on a 2001 baseline, the company said.

FPL said it is the first electric company to voluntarily take these reduction measures, which it is doing as part of the Environmental Protection Agency's Climate Leaders Program

Small Firms Turn to Financial Futures for Fuel

Wall Street Journal, Nov. 3

Deregulated energy markets have taken their fair share of criticism in recent years. But that hasn't scared off some of the nation's small-business owners, who are betting that the wild and woolly world of the financial-futures markets will provide more price stability than the stodgy regulated utilities.

That's a big departure. Typically, small businesses have relied on the regulated utilities for their energy needs. But in the past three years, natural-gas prices have surged and the regulated utilities have been slow to find ways to put a lid on the trend. That's opened the doors to marketers that can use financial derivatives and fixed-rate contracts to offer stable pricing for customers.

By the end of this year, an estimated 550,000 commercial clients nationwide will have purchased fixed-price, natural-gas contracts through energy marketing middlemen, according to Kema, a consulting firm in Fairfax, Va., that researches retail-energy markets. That represents a 10% increase from two years ago.

"We are seeing slow and steady growth" in small businesses switching from utilities to deregulated energy marketers for fuel supplies, says Kema's natural- gas research director, Gerry Yurkevicz.

In the past, only large industrial companies would take such risks. But an increasing number of small and midsize businesses, including property managers, hospitals and fast-food franchisees, are locking in a fixed price rather than watching their energy bills gyrate from month to month. If they're lucky, they will save money on fuel. But if a warm winter causes prices to collapse, they may end up spending more on natural gas than what utilities would charge.

But for most smaller businesses, natural-gas marketers have something to offer besides the possibility of lower prices: They can offer near-term price stability. This allows businesses to set their energy budgets for the year and not worry.

Mark Beffort, president of a real-estate-management concern in Oklahoma City recently made the switch. Instead of buying natural gas from the local utility for a 22-story suburban office tower he manages, he works with natural-gas marketer Clearwater Enterprises LLC. This past fall, Mr. Beffort called Clearwater and chewed over whether to buy natural gas for the winter or wait. "Do we want to lock or do we want to gamble?" he asked. Last month, a government report on levels of natural gas stored in reservoirs for winter use sent natural-gas prices down. At the urging of Clearwater, Mr. Beffort bought on the drop. He orally agreed to take enough natural gas to heat the office tower at a fixed price. Clearwater then locked in supply using a combination of futures contracts and fixed-price deals with producers.

"Customers can fix their energy budgets at the beginning of the year," Mr. Yurkevicz says. "They can set it and forget it." By contrast, regulators set up rules that discourage utilities from hedging, making retail prices almost as volatile as natural-gas prices.

For most of the 1990s, natural-gas prices, as measured by tradable futures contracts on the New York Mercantile Exchange, held stable at about $2.50 per million British thermal units. Since 2000, however, the price has whipsawed, and the average cost so far this year has exceeded $5 per million BTUs.

Many marketing firms are targeting smaller and smaller commercial customers.
Peoples Energy Services, a unit of Chicago-based Peoples Energy Corp., reported its number of commercial clients jumped 20% to 13,073 for the year ended Sept. 30. Meanwhile, the company's average customer usage decreased by 9% to 3.2 million cubic feet, as the energy marketer takes on more smaller customers.

UGI Energy Services, a subsidiary of suburban Philadelphia-based UGI Corp., has more than quadrupled its number of customers since 1999. Over the same span, its average customer usage has dropped 13%, to 23 million cubic feet. "We view ourselves as risk managers," says UGI Energy Services President Bradley Hall. "What most people are looking for is stability."

That's what attracted customer Jeff Uhlenburg. His family-owned industrial furnace in Philadelphia had spent more than six months of its energy budget by mid-March, and high natural-gas prices forced him to switch to propane. "I got burned," he says. This summer, he switched to UGI, which buys natural-gas futures and supplies Mr. Uhlenburg natural gas at a fixed price.

Rather than fighting the trend, some regulated utilities are encouraging their customers to switch. The utilities continue to profit from transporting the natural gas. And often, the utility and energy marketer share a common corporate parent.

Oklahoma Natural Gas Co., a regulated utility owned by Oneok Inc., gained approval from the state earlier this year to permit even smaller customers than previously allowed to switch to a third-party marketer. The 97-year old utility last month began asking commercial clients as small as dry cleaners for permission to send their contact information to marketers. Oneok is hoping that commercial customers will choose to sign up with its unregulated subsidiary, Oneok Energy Marketing Co., to provide their natural gas.

State's new power plan approved

***By David Whitney,* Sac. Bee, October 29, 2003**

Energy regulators said Tuesday that the operator of California's electricity grid can proceed with developing a new system to fix some structural problems that contributed to the statewide power crisis two years ago.

The Federal Energy Regulatory Commission approved the concepts behind a wholesale market redesign plan that the Folsom-based California Independent System Operator submitted for review 17 months ago.

The plan is the successor to the state's failed deregulatory system that favored spot-market sales over long-term contracts. The new plan, portions of which already have been addressed by the commission, looks more broadly at how to get power to where it is needed so that last-minute shortages and congestion are minimized.

"The California Independent System Operator's filing represents significant progress and reflects a pragmatic approach to its market redesign effort," the commission said in its 96-page order.

While the market redesign plan is far from complete, the commission's action approves several of the key scheduling and pricing changes that the grid operator had sought.

Among these is a new system that will permit wholesale power to be priced differently in several dozen distribution zones around the state. Where power is in short supply or transmission lines are too constrained for the power to easily reach the localized areas where it is needed, prices will be the highest.

ISO spokesman Gregg Fishman said that approval of the "locational marginal pricing" plan is central to restoring efficiencies to the state power grid.

The system now will make it easier to identify problem areas a day in advance of developing shortages, so that steps can be taken to minimize disruptions, he said.

Fishman said the plan also should encourage the construction of power plants in places where they are most needed because the zones with the highest prices will lure generators looking for the highest returns on their investments.

The commission's order Tuesday also raised questions about many of the plan's details. The commission ordered meetings with utilities, generators and other interested parties to further define aspects of the 700-page plan.

But Fishman said that the commission's order came as good news at the ISO.

"It looks positive from the initial read," he said. "The devil is in the details and so we'll be reviewing the order in detail. But it looks like the commission has approved the largest components of our market design and we can move ahead on schedule to fix some of the flaws in the system."

The commission's action clears the way for the grid operator to develop the computer software and other systems to prepare a tariff structure that will be submitted later to federal regulators for approval.